DOCUMENT RESUME

ED 430 472 HE 032 063

TITLE	Repayment Book. William D. Ford Federal Direct Loan Program.
INSTITUTION	Department of Education, Washington, DC.
PUB DATE	1999-00-00
NOTE	36p.
AVAILABLE FROM	U.S. Dept. of Education, Tel: 800-848-0979 (Toll Free); Web site: www.ed.gov/DirectLoan
PUB TYPE	Guides - Non-Classroom (055)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Credit (Finance); Federal Programs; Higher Education; Interest (Finance); *Loan Repayment; Money Management; Student Financial Aid; *Student Loan Programs
IDENTIFIERS	*Federal Direct Student Loan Program

ABSTRACT

This booklet is intended to help individuals who received William D. Ford Federal Direct Loans as students manage the repayment process. Following an introduction, explanations are offered for how the principal balance of the loan is determined and how interest rates are applied. The following sections explain the four different repayment plans, factors to consider in choosing a plan, the process of switching plans, and making payments. Many examples illustrate each aspect of the loan repayment process. A chart offers examples of debt levels, monthly payments, and total amount repaid for all of the repayment plans. Additional sections discuss consolidation of multiple federal loans and the consolidation application process. Also included are answers to some frequently asked questions and a glossary. An appendix provides specific guidance on calculating direct loan monthly payments, charts for each repayment plan, and worksheets. (DB)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED 430 472

Repayment Book

William D. Ford Federal Direct Loan Program

HE 032 163

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
✔ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

BEST COPY AVAILABLE

U.S. Department of Education

For More Information

The U.S. Department of Education's Direct Loan Servicing Center's address and telephone numbers appear on all correspondence the Center sends you. You should always use the address and telephone numbers provided to contact the Center if you have questions about your Direct Loans. If you misplace the contact information, you may call this toll-free number for assistance:

1-800-848-0979

The TDD number (for the hearing-impaired ONLY) is

1-800-848-0983

Updated information about Direct Loans is also available on the Direct Loan Internet Web site at

www.ed.gov/DirectLoan

irect Loans

Contents

Introduction 1
Repaying Your Loans 2
•Understanding How the Principal Balance of Your Loan is Determined 2
•Understanding How Interest Rates are Applied 2
Understanding the Repayment Plans 2
Choosing a Plan 12
Switching Plans 12
Making Payments 13
Getting Help 13
Consolidate With Direct Loans 13
Frequently Asked Questions 16
Glossary 18
Appendix: Calculating Your Direct Loan Monthly Payment . . . A-1
Constant Multiplier and Other Charts A-2
Chart A: Standard Repayment Plan A-2
Chart B: Extended Repayment Plan A-3
Chart C: Graduated Repayment Plan A-3
Chart D: Income Contingent Repayment Plan A-3
Chart E: Income Percentage Factors A-4
Chart F: Poverty Guidelines A-5
Income Percentage Factor Worksheet A-7
Direct Subsidized and Unsubsidized Worksheet Part 1 . . . . A-9
Direct Subsidized and Unsubsidized Worksheet Part 2 . . . A-11
Direct PLUS Loan Worksheet A-13

Introduction

Your William D. Ford Federal Direct Loans (Direct Loans) were made to you by the U.S. Department of Education through your school. These loans have been, and will continue to be, managed by the Direct Loan Servicing Center. The Servicing Center will answer any questions you have about your loans and about repaying them.

This booklet will help you understand available repayment plans and help you choose the one that is best for you.

The figures used in the examples, charts, and worksheets in this booklet are estimates based on current program guidelines. Some dollar amounts have been rounded to the nearest whole dollar. For exact payment amounts on your loans, call the Servicing Center.

Repaying Your Loans

When you received your Direct Loans, you promised to repay them. The Department wants to make it easy for you to keep that promise.

The Direct Loan Program offers repayment plans that are designed to meet the needs of almost every borrower, and the program allows you to switch plans if your needs change. The Direct Loan Servicing Center staff will help you manage your loans until they are paid in full.

Understanding How the Principal Balance of Your Loan is Determined

If you borrowed Direct Unsubsidized Loans, interest started accruing from the time the funds were disbursed to you. You had a choice of either paying the interest while you were in school or letting it accumulate. If you chose to postpone paying the interest until you left school, when you enter repayment any unpaid interest that accumulated while you were in school will be capitalized (that is, added to the principal of your loan). Capitalization increases the principal balance you owe when your repayment period begins, and thus, increases the total amount on which interest is charged.

Understanding How Interest Rates are Applied

The interest rate on all Direct Loans is variable and is adjusted each July 1. By law, it can never go above 8.25 percent for students' Direct Subsidized and Unsubsidized Loans or above 9 percent for parents' Direct PLUS Loans. Interest rates for students' Direct Subsidized and Unsubsidized loans may differ from borrower to borrower, depending on when the loan was disbursed and whether the loan is in an in-school, grace, or deferment period. Contact the Servicing Center for more information on your interest rates.

Understanding the Repayment Plans

When repaying Federal Direct Subsidized Loans and Direct Unsubsidized Loans, student borrowers may choose from four repayment plans:

- Standard Repayment Plan
- Extended Repayment Plan
- Graduated Repayment Plan
- Income Contingent Repayment (ICR) Plan

Parent borrowers may repay their Direct PLUS Loans through the Standard, Extended, and Graduated Repayment Plans. The Income Contingent Repayment Plan is not available to Direct PLUS Loan borrowers.

The repayment plan you choose will cover all of your Direct Loans. An exception is made for parent borrowers who are repaying Direct PLUS Loans received for their children and student loans they received for themselves. In this circumstance, a borrower may use two repayment plans—one for all of their parent loans and one for all of their student loans.

Shortly before your loan repayment period begins, the Servicing Center will send you information about the various repayment plans (including the amount you would pay under each plan) and ask you to select one. If you do not select a plan, your loans will automatically be placed in the Standard Repayment Plan.

Generally, your monthly payment will be adjusted each year to account for changes in the annual interest rate. Your selection of a repayment plan does not affect your interest rate.

Note that the length of your repayment period does not include periods of deferment or forbearance (postponements of repayments). (See the Glossary on page 18 for definitions of these terms.)

Standard Repayment Plan

With the Standard Plan, you'll pay a fixed amount each month until your loans are paid in full. Your monthly payments will be at least $50, and you'll have up to 10 years to repay your loans.

The Standard Plan is good for you if you can handle higher monthly payments because you'll repay your loans more quickly. Your monthly payment under the Standard Plan may be higher than it would be under the other plans because your loans will be repaid in the shortest time. For the same reason—the 10-year limit on repayment—you may pay the least interest.

Example A: Let's say you owe $15,000 in Direct Subsidized Loans when your repayment period begins, and your loans will be repaid at an 8.25 percent interest rate. Under the Standard Plan, you'll pay about $184 a month for 10 years, and you'll repay a total of about $22,078 ($15,000 in principal and $7,078 in interest).

EXAMPLE A

This example shows Direct Subsidized Loans repaid at 8.25 percent interest under the **Standard Repayment Plan** for 10 years (120 payments).

Loan Amount	Beginning Monthly Payment	Total Amount Repaid
$15,000	$184	$22,078*

*$15,000 in principal and $7,078 in interest

Example B: You borrowed $15,000 in Direct Unsubsidized Loans to attend school ($2,000 your first year, $3,000 your second year, and $5,000 in each of your third and fourth years), and you chose to repay your loans under the Standard Repayment Plan. Because you chose not to pay the interest on your loans as it accumulated, the interest was capitalized when your repayment period began. At an interest rate of 8.25 percent, the amount of capitalized interest added to your original balance was $2,641, making the total principal balance of your loans $17,641. Your monthly payments will be calculated using this amount. At 8.25 percent interest, your monthly payments will be about $216 a month under the Standard Plan. You will repay a total of about $25,964 ($17,641 in original principal and capitalized interest and $8,323 in additional interest).

Extended Repayment Plan

Under the Extended Plan, you'll still have minimum monthly payments of at least $50, but you can take from 12 to 30 years to repay your loans. The length of your repayment period will depend on the total amount you owe when your loans go into repayment. (See the table on page 6.)

This is a good plan if you will need to make smaller monthly payments. Because the repayment period generally will be at least 12 years, your monthly payments will be less than with the Standard Plan. However, you may pay more in interest because you're taking longer to repay the loans. **Remember that the longer your loans are in repayment, the more interest you will pay.**

EXAMPLE B

This example shows Direct Unsubsidized Loans (with capitalized interest) repaid at 8.25 percent under the **Standard Repayment Plan**.

Loan Amount	Capitalized Interest	Principal to Be repaid	Monthly Payments	Number of Payments	Total Repayment
$15,000	$2,641	$17,641	$216	120	$25,964**

*Interest was capitalized once, when the borrower entered repayment
**$17,641 in principal and capitalized interest and $8,323 in additional interest

EXAMPLE C

This example shows Direct Subsidized Loans at 8.25 percent interest under the **Extended Repayment Plan** for 15 years (180 payments).

Loan Amount	Beginning Monthly Payment	Total Amount Repaid
$15,000	**$146**	**$26,196***

*$15,000 in principal and $11,193 in interest

Example C: With $15,000 in Direct Subsidized Loans, an 8.25 percent interest rate, and a repayment period of 15 years, you'll pay about $146 a month. By the end of the 15 years, you will have paid a total of about $26,196 ($15,000 in principal and $11,193 in interest).

Graduated Repayment Plan

With this plan, your payments start out low, then increase, generally every two years. The length of your repayment period will depend on the total amount you owe when your loans go into repayment. (See the table on next page.) If you expect your income to increase steadily over time, this plan may be right for you. Your initial monthly payments will be equal to **either** the interest that accumulates on your loans **or** half of the payment you would make each month using the Standard Plan, **whichever is greater.** However, your monthly payments will never increase to more than 1.5 times what you would pay with the Standard Plan.

Example D: Let's say that you owe $15,000 in Direct Subsidized Loans when your loans enter repayment and that the interest rate on your loans is 8.25 percent. Under the Graduated Plan, your repayment period may be as long as 15 years, and you will start out paying about $103 each month on your loans. By the time you reach the last year of your repayment period, your monthly payments will have increased to about $244. In this example, you will repay a total of about $28,762 ($15,000 in principal and $13,762 in interest).

EXAMPLE D

This example shows Direct Unsubsidized Loans repaid at 8.25 percent interest under the **Graduated Repayment Plan** for 15 years (180 payments).

Loan Amount	Beginning Monthly Payment	Ending Monthly Payment	Total Amount Repaid
$15,000	**$103**	**$244**	**$28,762***

*$15,000 in principal and $13,762 in interest

Graduated/Extended Repayment Table

Amount of Debt	Length of Repayment Period May Not Exceed
Less than $10,000	12 Years
$10,000 - $19,999	15 Years
$20,000 - $39,999	20 Years
$40,000 - $59,999	25 Years
$60,000 or more	30 Years

Income Contingent Repayment (ICR) Plan

This plan gives you the flexibility to meet your Direct Loan obligations without causing undue financial hardship. Each year, your monthly payments will be calculated on the basis of your Adjusted Gross Income (AGI), family size, and the total amount of your Direct Loans. To participate in the ICR Plan, you must sign a form that permits the Internal Revenue Service to provide information about your income to the U.S. Department of Education. This information will be used to recalculate your monthly payment, adjusted annually based on the updated information.

If your payments are not large enough to cover the interest that has accumulated on your loans, the unpaid interest will be capitalized once each year. However, capitalization will not exceed 10 percent of the original amount you owed when you entered repayment. Interest will continue to accumulate but will no longer be capitalized.

The maximum repayment period is 25 years. If you make payments under the Standard Plan or the 12-year Extended Plan and then switch to the ICR Plan, those periods are counted toward your 25-year repayment period. Time spent in other plans or in deferment or forbearance does not count toward the maximum 25 years. If you haven't fully repaid your loans after 25 years under this plan, the unpaid portion will be discharged. You will, however, have to pay taxes on the amount that is discharged.

The ICR Formula

You will pay an amount based on the Adjusted Gross Income (AGI) you report on your federal income tax return, or, if you submit alternative documentation of income (see page 9), you will pay an amount based on your current income. If you are married, the amount you pay will be based on your income and your spouse's income.

One of the ICR Plan's protective measures is a cap on your monthly payments at 20 percent of your discretionary income. Under the ICR Plan, you will pay the lesser of:

- the amount you would pay if you repaid your loans in 12 years, multiplied by an income percentage factor that varies with your annual income; or
- 20 percent of your discretionary income, which is your AGI minus the poverty level (as defined by HHS poverty guidelines) for your family size, divided by 12.

Calculating your monthly payment under the ICR Plan involves the following series of steps:

Step 1:
Determine monthly payments based on what you would pay over 12 years using equal monthly installments. To do this, multiply the principal balance by the constant multiplier for the interest rate on your loan. (See pages A-2 and A-3.) If the exact interest rate is not listed, choose the next highest rate for estimation purposes.

Step 2:
Multiply the result by the income percentage factor that corresponds to your income. If you are married, choose the factor that corresponds to your and your spouse's combined income. (See page A-4 for a chart of income percentage factors.) If your income is not listed, choose the income percentage factor that corresponds to the next highest income for estimation purposes, or interpolate to determine the correct income percentage factor. (See page A-6 to follow the steps necessary to interpolate.)

Step 3:
Next, calculate your discretionary income by subtracting the poverty level for your family size from your adjusted gross income. (See page A-5 for HHS Poverty Guidelines Chart).

Then use the following equation to figure your monthly payment as a portion of your discretionary income:

Monthly discretionary income payment = (Discretionary income x .20) ÷ 12

Step 4:
Compare the results of steps 2 and 3. Your payment will be the lesser of these results.

Example E: You are a single borrower with a family size of one, and your prior year AGI was $15,000. You owe $15,000 in Direct Subsidized Loans when your repayment period begins, and the interest rate on your loans is 8.25 percent. Your beginning payment would be about $104 a month. This amount is less than 20 percent of your monthly discretionary income (which would be $116). In this example, you would repay your loans in about 25 years, and you would repay a total of $35,096 ($8,991 in principal and $26,105 in interest). Note that in this example, you would not repay the total principal amount. After 25 years, the remaining balance on the loan would be discharged.

EXAMPLE E

This example shows Direct Unsubsidized Loans (with capitalized interest) repaid at 8.25 percent under the **Income Contingent Repayment (ICR) Plan.**

Loan Amount	Adjusted Gross Income	Beginning Monthly Payment	Number of Years in Repayment	Total Repayment
$15,000	$15,000	$104*	25	$35,096**

*Calculated as follows:

Step 1: Multiply the principal balance by the constant multiplier for 8.25% interest (.0109621). (For constant multipliers, see the chart on page A-2).
0.0109621 x 15,000 = 164.4315

Step 2: Multiply the result by the income percentage factor that corresponds to the borrower's income. (For income percentage factors, see the chart on page A-4). 63.85% (0.8887) x 164.4315 = $104

Step 3: Determine 20 percent of discretionary income. (See page A-5 for poverty guidelines chart.)***
[$15,000 - $8,050] x 0.20 ÷ 12 = $116

Step 4: Payment is the amount determined in step 2 because it is less than 20 percent of discretionary income.

***$8,991 in principal and $26,105 in interest*

****Poverty guideline for a family size of one*

Example F: You are a borrower with a family size of one, and your prior year AGI was $30,000. You owe $15,000 in Direct Subsidized Loans when your repayment period begins, and the interest rate on your loans is 8.25 percent. Your beginning monthly payment would be $146. This amount is less than 20 percent of your monthly discretionary income (which would be $366). In this example, you would repay your loans in about 14 years and would repay a total of about $25,034 ($15,000 in principal and $10,034 in interest).

Alternative Documentation of Income

If you are in your first year of repayment, you will be required to submit alternative documentation of your current income (that is, other than IRS-reported AGI) to the Department. You will probably be required to submit alternative documentation in your second year of repayment also. Such documentation includes pay stubs and canceled checks or, if these are unavailable, a signed statement explaining your income

EXAMPLE F

This example shows a borrower with a family size of one and a $30,000 AGI repaying $15,000 in Direct Subsidized Loans at 8.25 percent interest under the **ICR Plan**.

Loan Amount	Adjusted Gross Income	Beginning Monthly Payment	Number of Years in Repayment	Total Repayment
$15,000	**$30,000**	**$146***	**14**	**$25,034****

*Calculated as follows:

Step 1: Multiply the principal balance by the constant multiplier for 8.25% interest (.0109621). (For constant multipliers, see the chart on page A-3).
0.0109621 x 15,000 = 164.4315

Step 2: Multiply the result by the income percentage factor that corresponds to the borrower's income. (For income percentage factors, see the chart on page A-4).
88.77% (0.9089) x 164.4315 = $146

Step 3: Determine 20 percent of discretionary income. (See page A-5 for poverty guidelines chart.)***
[$30,000 - $8,050] x 0.20 ÷ 12 = $366

Step 4: Payment is the amount determined in step 2 because it is less than 20 percent of discretionary income.

***$15,000 in principal and $10,034 in interest*

****Poverty guideline for a family size of one*

sources. The Department requires this alternative documentation from borrowers in their first year (and sometimes second year) of repayment because the most recent tax returns of such borrowers usually cover time they were in school (and probably not working full time). Thus, the AGIs the Department receives from the IRS for these borrowers would not accurately reflect their incomes at the time they enter repayment.

If you are not in your first or second year of repayment, you may still be required to submit alternative documentation of income if your AGI is not available or if your AGI does not reasonably reflect your current income. In addition, you may choose to submit alternative documentation of current income if special circumstances, such as loss of employment for you or your spouse, warrant an adjustment to your monthly payment.

Please note that if you are married and submit alternative documentation of income for any of the reasons discussed above, you will also be required to submit alternative documentation for your spouse.

Minimum $5 Payment

If your income is less than or equal to the poverty level for your family size, your monthly payment will be zero. If your calculated monthly payment is greater than zero but less than $5, you will be required to make a $5 monthly payment. If your monthly payment is calculated to be more than $5, you will be required to pay that calculated amount.

Information for Married Borrowers

You and your spouse's total AGI will be used to calculate your monthly payments under the ICR plan. Each of you will be required to provide written consent to disclose your tax return information. If you submit alternative documentation of income, your spouse must also submit alternative documentation. If your spouse does not submit the necessary information, you will not be eligible for the ICR plan.

If both you and your spouse have Direct Loans, you can repay your loans jointly. Your payments will be based on your joint debt and joint income. While you are not required to repay your loans jointly, it is important to remember that if only one of you chooses to repay your loans under the ICR plan, the Department will use your and your spouse's total AGI (or alternative documentation of income) to determine the monthly payments under the ICR plan. It is also important to note that repaying your loans jointly does not make you or your spouse financially responsible for each other's loans.

Example G: You and your spouse want to repay your Direct Subsidized Loans under the ICR Plan. Your family size is two, and your joint prior year AGI was $25,000. You owe $10,000 in Direct Loans, and your spouse owes $5,000, for a total of $15,000 in loans. Based on your joint income and your outstanding balances, your beginning monthly payment would be $129. This amount is less than 20 percent of your monthly discretionary income (which would be $236). In this example, you and your spouse would repay your loans in about 16 years and would repay a total of about $27,974 ($15,000 in principal and $12,974 in interest)

The ICR Plan Prior to July 1, 1996

The current ICR payment formula became effective July 1, 1996. Borrowers who were in repayment under the ICR Plan prior to July 1, 1996, and have remained in repayment under the ICR Plan will continue to make payments in accordance with the provisions of the old formula. They have, however, the option of switching to the current plan.

EXAMPLE G

This example shows a married couple with a family size of two and a $25,000 AGI. They are jointly repaying $15,000 in Direct Subsidized Loans ($10,000 for one spouse and $5,000 for the other) at 8.25 percent interest under the **ICR Plan.**

Loan Amount	Adjusted Gross Income	Beginning Monthly Payment	Number of Years in Repayment	Total Repayment
$15,000	**$25,000**	**$129***	**16**	**$27,974****

*Calculated as follows:

Step 1: Add the Direct Loan balances of the husband and wife together to determine the aggregate loan balance.
$5,000 + $10,000 = $15,000

Step 2: Multiply the principal balance by the constant multiplier for 8.25% interest. (.0109621) (For constant multipliers, see the chart on page A-3).
0.0109621 x 15,000 = 164.4315

Step 3: Multiply the result by the income percentage factor that corresponds to the joint income. (For income percentage factors, see the chart on page A-3.) 78.63% (0.7991) x 164.4315 = $129

Step 4: Determine 20 percent of discretionary income.** (See page A-5 for poverty guidelines chart.)
[$25,000 - $10,850] x 0.20 ÷ 12 = $236

Step 5: Payment is the amount determined in step 3 because it is less than 20 percent of discretionary income.

***$15,000 in principal and $12,974 in interest*

****Poverty guideline for a family size of two*

Choosing a Plan

You might be wondering which repayment plan is best for you and your circumstances. The table on page 15 is a simple way to compare monthly payments under the four plans. The worksheets and charts in the appendix enable you to estimate your monthly payments under each of the repayment plans.

Remember that you don't necessarily want to choose a plan just because it offers the lowest monthly payments. While doing so may seem tempting, this may not be the best course of action for every borrower. You may need more information about what you can afford before you select a plan.

Preparing a monthly budget can help you see what you can afford. A budget will show you what's coming in (income) and what's going out (expenses), as well as where it's going. It could show you that you can afford larger monthly loan payments than you thought, or it could show you that you need to cut back on nonessential spending so you can meet your loan obligations. For more information on budgeting, request a copy of *Budgeting Pays Off After School* from the Direct Loan Servicing Center.

The staff at the Direct Loan Servicing Center can also help you choose a repayment plan. Once you've considered your options, call the Servicing Center at 1-800-848-0979 if you need advice. The Servicing Center staff can arrange an alternative repayment plan for you if you document that you have special circumstances and that none of the other plans meets your needs.

Switching Plans

If you ever decide that the plan you selected no longer meets your needs, you can switch to another repayment plan. The maximum repayment period for your new plan must be longer than the amount of time your loans have already been in repayment. For example, you could switch from the Extended Plan to the Standard Plan only if you had been in the Extended Plan less than 10 years (the maximum Standard Plan repayment period). Periods of authorized deferment and forbearance are not included in calculating the amount of time you have been in repayment.

If you are switching to the ICR Plan, any period of repayment in the Graduated Plan, in an alternative plan, or in an Extended Plan in which payments are based on a repayment period of greater than 12 years does not count as part of your ICR 25-year maximum term. Any period of repayment in the Standard Plan or in an Extended Plan in which payments are based on a repayment period of 12 years or less does count as part of your ICR 25-year maximum term. Any periods of authorized deferment

or forbearance do not count as part of the 25 years, regardless of which repayment plan you were using during those periods.

Call or write the Servicing Center if you decide you want to switch plans.

Making Payments

For student loans, you begin your repayment period six months after you graduate, leave school, or drop below half-time enrollment. The six-month delay is called a grace period.

For Direct PLUS Loans, your first payment will be due no later than 60 days after the date the loan is fully disbursed. Thus, repayment may begin while your child is still in school.

You will receive a billing statement each month for the first year of repayment. All your Direct Loans will be included on one statement, and one payment each month will cover all your loans.

You must keep the Servicing Center informed of any changes to your name and/or address so that your billing statements and coupon book will reach you. Remember that you are responsible for making your payments on time, regardless of whether you receive billing statements or a coupon book. The address to which you will be sending your payments is given on the correspondence you receive from the Servicing Center, along with the Servicing Center's toll-free telephone number and correspondence address.

Getting Help

Repaying your Direct Loans on time will help you establish or maintain a good credit rating. Of course, there may be times when you have trouble making payments—for example, if you are unemployed, if you become injured and can't work, or if you return to school. For these and other reasons, you can postpone making payments.

If you think you qualify for a postponement such as a deferment or forbearance, contact the Servicing Center. (See the Glossary on page 20 for definitions of "deferment" and "forbearance.") For more information on postponing repayment, request a copy of *Bill Trouble? Don't Default...Defer!* from the Servicing Center.

Consolidate With Direct Loans

A Federal Direct Consolidation Loan can also simplify repayment for some borrowers—particularly those who have both Direct Loans and other federal student loans. Regardless of how many federal student loans you are repaying, you may benefit from consolidating your loans into a single account ***because:***

- You can qualify even if you're still in school.
- The interest rate on a Direct Consolidation Loan for which an application is received between February 1, 1999 and June 30, 2003 is based on the weighted average of the interest rates on the loans being consolidated,

rounded to the next highest one-eighth of one percent. This rate shall not exceed 8.25 percent. It is a fixed interest rate that remains the same throughout the life of the Direct Consolidation Loan.

- You may pay based on your income.
- You'll have more repayment choices than ever before.
- You can change your repayment plan at any time.
- You get everything on one monthly statement.
- You can qualify even if you are in default.
- There is never a penalty for early payoff of your loan.
- There is no minimum or maximum amount you must consolidate.

By consolidating your education loans, you will have only one payment, one place to send your monthly payment and only one phone call to report a change of address or phone number, request a deferment or forbearance, or ask a question about your loan(s).

You Can Consolidate While You Are In School

If you are attending school at least half time, have a Direct Loan or are attending a Direct Loan school and have at least one Direct Loan or a Federal Family Education Loan (FFEL) in an "in-school" period, you are eligible for in-school consolidation, and it can make your life easier.

You Can Consolidate If you Are In Default

If you are in default, you may still consolidate your loans; however, your credit report will show a paid-in-full default entry. Consolidation will limit further collection costs and will allow you to pay off your defaulted loan with the lowest possible payment. If you are in default and would like more information, call 1-800-621-3115.

For Additional Information About Direct Consolidation Loans

If you are interested in a Direct Consolidation Loan you should call the Direct Loan Origination Center's Consolidation Department at:

1-800-557-7392

You can also find up-to-date information on the Direct Loan web site. The URL is:

www.ed.gov/DirectLoan

How to Apply for a Direct Consolidation Loan

You may apply for a Direct Consolidation Loan electronically via the Direct Loan web site at:

http://www.ed.gov/DirectLoan/consolid2.html

You may also download the Direct Consolidation Loan Application in pdf format from the web. To request a paper application packet, contact the Consolidation Department via e-mail at

loan_consolidation@mail.eds.com

Examples of Debt Levels, Monthly Payments, and Total Amount Repaid for All Direct Loan Repayment Plans[1]

Initial Debt When Borrower Enters Repayment	Standard		Extended		Graduated		Income Contingent[2]											
							Income = $15,000				Income = $25,000				Income = $45,000			
							Single		Married/HOH[3]		Single		Married/HOH[3]		Single		Married/HOH[3]	
	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total
$2,500	$50	$3,074	$50	$3,074	$25	$4,029	$17	$5,849	$17	$5,587	$23	$4,512	$22	$4,662	$28	$3,832	$28	$3,870
5,000	61	7,360	55	7,893	35	8,646	35	11,699	33	11,173	45	9,023	43	9,325	55	7,665	55	7,740
7,500	92	11,039	82	11,840	53	12,970	52	17,548	50	16,760	68	13,535	65	13,987	83	11,497	83	11,609
10,000	123	14,718	97	17,462	69	19,175	69	23,397	66	22,346	91	18,046	86	18,650	111	15,330	110	15,479
15,000	184	22,078	146	26,194	103	28,762	104	35,096	69	32,484	136	27,070	129	27,974	166	22,995	165	23,219
20,000	245	29,437	170	40,898	138	44,423	116	46,247	69	40,833	181	36,093	172	37,299	221	30,660	221	30,958
25,000	307	36,796	213	51,125	172	55,529	116	55,660	69	47,638	227	45,116	215	46,624	278	38,325	276	38,398
30,000	368	44,155	256	61,349	206	66,635	116	63,529	69	53,091	272	54,139	236	57,009	332	45,990	331	46,437
40,000	491	58,873	315	94,614	275	101,528	116	75,154	69	60,494	283	79,361	236	91,047	443	61,320	441	61,917
50,000	613	73,591	394	118,269	344	126,910	116	81,961	69	63,809	283	120,901	236	131,479	556	76,650	552	77,396
75,000	920	110,387	563	202,842	516	214,932	116	84,484	69	64,066	283	171,326	236	155,829	616	128,273	569	135,054
100,000	1,227	147,184	751	270,457	688	286,575	116	84,484	69	64,066	283	179,936	236	159,517	616	215,955	569	233,866

Notes: Payments are calculated using the maximum interest rate for student borrowers, 8.25 percent
[1]Assumes a 5 percent annual income growth (Census Bureau)
[3]HOH is Head of Household. Assumes a family size of two.

BEST COPY AVAILABLE

Frequently Asked Questions

1. Is there a penalty for repaying my loans early?

No. You may prepay all or part of the unpaid balance on any Direct Loan at any time without penalty. **Be careful to specify which loan you are prepaying.** The Servicing Center will apply the prepayment first to any charges or collection costs, then to interest, and last to principal.

2. What happens if I don't pay back my loans?

Your loans will become delinquent and will eventually go into default. Your loans are reported to major credit bureaus when you are 90 days late making payments. Default occurs when you are 180 days late making a payment. The consequences of default are serious and can include a damaged credit rating, loss of eligibility for further federal student aid, withholding of wages and tax refunds, and legal actions (such as lawsuits) being taken against you.

3. What happens if, as a parent, I'm already repaying a Direct PLUS Loan, then I take out another one for the same or another child? How does this affect my monthly payments?

The Servicing Center will send you one monthly bill for both loans. Depending on the repayment plan you have selected and the amount of your loans, your monthly payment is likely to increase.

4. When will my payments be due?

Payments will be due each month. The Servicing Center will inform you of your payment due date. You will receive a bill approximately two weeks prior to your payment due date. However, you must still make your monthly payment whether or not you receive your bill. If you would like to change the day of the month your payment is due, contact the Servicing Center.

5. Will my payment history be reported to credit bureaus?

Yes. Your account balance and status will be reported to credit bureaus on a regular basis. Just as failing to repay your loan can damage your credit rating, repaying your loan responsibly can help you establish a good credit rating.

6. What happens if my Direct Subsidized and Direct Unsubsidized Loans are in repayment and I decide to go back to school?

You may be eligible to postpone your loan payments with an in-school deferment if you are attending an eligible school at least half time. If you are attending less than half time and think you might have difficulty repaying your loans, contact the Servicing Center. You may be able to obtain a forbearance to postpone your payments.

7. What should I do if I can't make my loan payments?
You should immediately contact the Servicing Center. A representative will assist you in choosing a new repayment plan, applying for a deferment or forbearance, or making other necessary adjustments to help ensure that your loan payments are affordable.

8. Can my loans ever be discharged?
Yes. A discharge releases you from all obligation to repay your loans. You can receive a discharge with proof of the following:

- You become totally and permanently disabled. (This cannot be for a condition that existed at the time you applied for the Direct Loans, unless a doctor certifies that the condition substantially deteriorated after the loans were made.)
- You are unable to complete a course of study because your school closed.
- The school falsely certified your eligibility.
- Your obligation to repay a loan is discharged in bankruptcy (in rare cases).
- Your Direct Loans may be discharged upon your death.

You may not avoid repaying your loans because you did not complete your program of study (for reasons other than school closure or false certification of loan eligibility), did not like your school or program of study, or did not obtain employment after completing your studies.

9. Can I consolidate my Federal Family Education Loan (FFEL) Program loans with my Direct Loans under the same repayment plan?
Yes. If you have other federal student loans, such as FFELs, in addition to your Direct Loans, you might want to consider a Federal Direct Consolidation Loan to simplify repayment. Consolidation allows you to make only one monthly payment to cover all your loans (including FFELs). You'll also get the benefits of Direct Loan consolidation, such as greater repayment flexibility. To apply for a Federal Direct Consolidation Loan, contact the Consolidation Department of the Direct Loan Origination Center. The toll-free telephone number is 1-800-557-7392.

Glossary

capitalization — Adding accumulated interest to the loan principal rather than having the borrower make interest payments. Capitalizing interest increases the principal amount of the loan and the total cost of the loan.

consolidation — Consolidation is similar to refinancing, but there is no loan fee. It simplifies loan repayment by combining several types of federal education loans into one new loan. (In the case of Direct Loan consolidation, the interest rate may be lower than one or more of the underlying loans.)

deferment — A temporary postponement of loan payments.

discharge — The release of a borrower from the obligation to repay his or her loan.

forbearance — A postponement of payments or a reduction in monthly payment amounts for a limited and specified period of time during which a borrower is willing but unable to make loan payments. A forbearance may also be an extension of the repayment period. All borrowers are charged interest during forbearance.

grace period — A six-month period before the first payment must be made on a Direct Subsidized or Unsubsidized Loan. The grace period begins the day after the borrower ceases to be enrolled at least half time.

interest — An expense of borrowing money that is calculated as a percentage of the amount borrowed.

postponement — See "deferment" and "forbearance."

principal balance — The amount owed on a loan or loans at any given time. The principal balance may include capitalized interest.

repayment period — The period during which a borrower is obligated to make payments on his or her loan(s). 23

Notes:

24

Appendix

Calculating Your Direct Loan Monthly Payment

Constant Multiplier and Other Charts

The constant multiplier is a factor that allows you to estimate your monthly payment under each Direct Loan repayment plan. Because the constant multiplier is calculated on the basis of an annual interest rate, it will change as the interest rate on your loan changes.

Instructions for using the Constant Multiplier Charts:

1. Determine the current interest rate on your Direct Loan. (If your loan has a lower interest rate during in-school, grace, and deferment periods than during repayment, make sure you are using the rate that applies during periods in which you are required to make payments.) If you do not know the interest rate, you can obtain the information by calling the Servicing Center.
2. Select the repayment plan for which you want to calculate your estimated monthly payment.
3. On the chart for that repayment plan (beginning below), find your interest rate. If your exact interest rate is not listed, choose the next highest rate. (For example, if the current rate were 7.62 percent you would select 7.75 percent). You'll find your constant multiplier in the cell below your interest rate.
4. If you are calculating an estimated monthly payment for the Extended Repayment Plan, find the row on that chart that corresponds to the repayment period on your loan. (See page 6.) You will find your constant multiplier in the cell where the Interest Rate and the Repayment Period row cross.

Charts E and F are used in calculating your payment amount under the Income Contingent Repayment Plan.

CHART A: STANDARD REPAYMENT PLAN

Interest Rate	7.00%	7.25%	7.46%	7.50%	7.75%	8.00%	8.25%	8.38%	8.50%	8.75%	9.00%
Constant Multiplier	.0116108	.0117401	.0118493	.0118702	.0120011	.0121328	.0122653	.0123345	.0123986	.0125327	.0126676

CHART B: EXTENDED REPAYMENT PLAN

Length of Repayment Period (in years)	Interest Rate										
	7.00%	7.25%	7.46%	7.50%	7.75%	8.00%	8.25%	8.38%	8.50%	8.75%	9.00%
12	.0102838	.0104176	.0105306	.0105523	.0106879	.0108245	.0109621	.0110340	.0111006	.0112400	.0113803
15	.0089883	.0091286	.0092474	.0092701	.0094128	.0095565	.0097014	.0097772	.0098474	.0099945	.0101427
20	.0077530	.0079038	.0080315	.0080559	.0082095	.0083644	.0085207	.0086024	.0086782	.0088371	.0089973
25	.0070678	.0072281	.0073639	.0073899	.0075533	.0077182	.0078845	.0079716	.0080523	.0082214	.0083920
30	.0066530	.0068218	.0069648	.0069921	.0071641	.0073376	.0075127	.0076043	.0076891	.0078670	.0080462

CHART C: GRADUATED REPAYMENT PLAN

Interest Rate	7.00%	7.25%	7.46%	7.50%	7.75%	8.00%	8.25%	8.38%	8.50%	8.75%	9.00%
Constant Multiplier	.005833	.006042	.006217	.006250	.006458	.006667	.006875	.006983	.007083	.007292	.007500

CHART D: INCOME CONTINGENT REPAYMENT PLAN

Interest Rate	7.00%	7.25%	7.46%	7.50%	7.75%	8.00%	8.25%	8.38%	8.50%	8.75%	9.00%
Constant Multiplier	.0102838	.0104176	.0105306	.0105523	.0106879	.0108245	.0109621	.0110340	.0111006	.0112400	.0113803

CHART E:
INCOME PERCENTAGE FACTORS
(BASED ON ANNUAL INCOME)

Single		Married/Head of Household	
Income	% Factor	Income	% Factor
7,669	55.00%	7,669	50.52%
8,050	55.37%	10,850	54.94%
10,552	57.79%	12,101	56.68%
13,578	60.57%	14,422	59.56%
15,000	63.17%	15,000	60.63%
16,673	66.23%	18,853	67.79%
19,629	71.89%	20,000	69.68%
20,000	72.73%	23,356	75.22%
23,356	80.33%	29,337	87.61%
25,000	82.65%	30,000	88.71%
29,337	88.77%	36,793	100.00%
30,000	89.77%	40,000	100.00%
36,793	100.00%	44,251	100.00%
40,000	100.00%	50,000	104.83%
44,251	100.00%	55,438	109.40%
50,000	107.59%	60,000	113.22%
53,185	111.80%	70,000	121.59%
60,000	117.15%	74,080	125.00%
68,101	123.50%	80,000	128.54%
70,000	124.69%	90,000	134.52%
80,000	130.93%	100,180	140.60%
90,000	137.17%	120,000	145.27%
96,452	141.20%	140,106	150.00%
100,000	143.41%	150,000	155.57%
110,592	150.00%	200,000	183.71%
150,000	172.81%	228,943	200.00%
196,984	200.00%		

CHART F: POVERTY GUIDELINES

To use this chart, you must first determine your family size, which is the number of the people whom you support. Include your children if they get more than half their support from you. Include other people only if they meet all of the following criteria:

- They live with you.
- They now get more than half their support from you.
- They will continue to get this support from you.

Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, payment of college costs, and so on.

Next, find the column that represents your place of residence. Read down to your family size. This is the poverty guideline for you.

Family size	All States and the District of Columbia (except Alaska, Hawaii)	Alaska	Hawaii
1	$8,050	$10,070	$9,260
2	10,850	13,570	12,480
3	13,650	17,070	15,700
4	16,450	20,570	18,920
5	19,250	24,070	22,140
6	22,050	27,570	25,360
7	24,850	31,070	28,580
8	27,650	34,570	31,800
More than 8 family members add:	2,800	3,500	3,220

INCOME PERCENTAGE FACTOR WORKSHEET
INCOME CONTINGENT REPAYMENT PLAN

If your income is not listed in Chart E, you can use this worksheet to interpolate the correct income percentage factor for the Income Contingent Repayment Formula. For example, let's say you are single and your income is $26,000.

Step One To interpolate, you must first find the interval between the closest Chart E income that is less than $26,000 and the closest Chart E income that is greater than $26,000. Subtract the closest lesser value from the closest greater value. For this discussion, we will call the result "income interval."

Closest Greater Value from Chart E	minus	Closest Lesser Value from Chart E	equals	Income Interval
$29,337	-	$25,000	=	$4,337

Step Two Using Chart E, find the interval between the two income percentage factors that are given for these incomes. Subtract the income percentage factor for the closest lesser value from the percentage factor for the closest greater value. We'll call the result the "income percentage factor interval."

Percentage Factor for Closest Greater Value	minus	Percentage Factor for Closest Lesser Value	equals	Income Percentage Factor Interval
88.77%	-	82.65%	=	6.12%

Step Three Subtract the closest lesser value shown on the chart from your income (for this example, $26,000).

Your Income	minus	Closest Lesser Value from Chart E	equals	Result
$26,000	-	$25,000	=	$1,000

Step Four Divide the result by the income percentage factor interval.

Step 3 Result	divided by	Income Interval from Step 1	equals	Result
$1,000	÷	$4,337	=	0.23057

Step Five Multiply the result by the income percentage factor interval from Step 2.

Step 4 Result	multiplied by	Income Percentage Factor Interval	equals	Result
0.23057	×	6.12	=	1.41%

Step Six Add the result to the income percentage factor that corresponds to the closest lesser value. The result is your income percentage factor.

Step 5 Result	plus	Percentage Factor for Closest Lesser Value	equals	Actual Income Percentage Factor
1.41%	+	82.65%	=	84.06%

DIRECT SUBSIDIZED AND UNSUBSIDIZED LOAN WORKSHEET PART I

This two-part worksheet allows you to compare monthly payments you would make with each Direct Loan repayment plan. The principal balance is the total amount you owe when your loans enter repayment, which includes any capitalized interest. Charts you will need can be found on pages A-2 through A-4 of this appendix.

STANDARD REPAYMENT PLAN

You can estimate your monthly payments under the Standard Repayment Plan by multiplying your principal balance by the constant multiplier (from Chart A) that corresponds to your interest rate.

Principal balance	multiplied by	Constant Multiplier from Chart A	equals	Estimated Monthly Payment (must be at least $50)
$ _____	x	_____	=	$ _____

EXTENDED REPAYMENT PLAN

You can estimate your monthly payments under the Extended Repayment Plan by multiplying your principal balance by the constant multiplier (from Chart B) that corresponds to your interest rate.

Principal balance	multiplied by	Constant Multiplier from Chart B	equals	Estimated Monthly Payment (must be at least $50)
$ _____	x	_____	=	$ _____

GRADUATED REPAYMENT PLAN

You can estimate your beginning monthly payment under the Graduated Repayment Plan by multiplying your principal balance by the constant multiplier (from Chart C) that corresponds to your interest rate. Using this factor to calculate your monthly payment will ensure that your payment covers the monthly interest on your loans. However, your monthly payment must be at least one half of what you would pay under the Standard Plan. (See the calculation above.) Your monthly payment will be the larger of the two amounts.

Principal balance	multiplied by	Constant Multiplier from Chart C	equals	Estimated Beginning Monthly Payment
$ _____	x	_____	=	$ _____

DIRECT SUBSIDIZED AND DIRECT UNSUBSIDIZED LOAN WORKSHEET PART 2

INCOME CONTINGENT REPAYMENT PLAN

Step One Multiply your principal balance by the constant multiplier (from Chart D) for the interest rate on your loans

Principal Balance	multiplied by	Constant Multiplier from Chart D	equals	Result
$_____	x	_____	=	$_____

Step Two Next, multiply the result from Step 1 by the income percentage factor (from Chart E) that corresponds to your income.

Step 1 Result	multiplied by	Income Percentage Factor from Chart E	equals	Result
$_____	x	_____	=	$_____

Step Three Calculate your discretionary income, which is AGI minus the poverty guideline (from Chart F) for your family size.

AGI	minus	Poverty Guideline from Chart F	equals	Discretionary Income
$_____	-	_____	=	$_____

Step Four Multiply your discretionary income by 20 percent.

Discretionary Income	multiplied by	.2	equals	Result
$_____	x	_____	=	$_____

Step Five Divide the Step 4 result by 12 months

Step 4 Result	divided by	12 months Factor Interval	equals	Result
$_____	÷	_____	=	$_____

Step Six Compare the Step 2 result with the Step 5 result. The lower amount is your monthly payment. If this amount is greater than $0 but less than $5, you are required to make a $5 payment.

Step 2 Result	Step 5 Result	Estimated Monthly Payment
$_____	_____	$_____

DIRECT PLUS LOAN WORKSHEET

If you have a Direct PLUS Loan, this worksheet allows you to compare the monthly payments you would make with each available Direct Loan repayment plan. The Principal balance is the total amount you owe when your loans enter repayment, which includes any capitalized interest. Charts you will need can be found on pages A-2 through A-4 of this appendix.

STANDARD REPAYMENT PLAN

You can estimate your monthly payments under the Standard Repayment Plan by multiplying your principal balance by the constant multiplier (from Chart A) that corresponds to your interest rate.

Principal Balance	multiplied by	Constant Multiplier from Chart A	equals	Estimated Monthly Payment (must be at least $50)
$ _____	x	_____	=	$ _____

EXTENDED REPAYMENT PLAN

You can estimate your monthly payments under the Extended Repayment Plan by multiplying your principal balance by the constant multiplier (from Chart B) that corresponds to your interest rate.

Principal Balance	multiplied by	Constant Multiplier from Chart B	equals	Estimated Monthly Payment (must be at least $50)
$_____	x	_____	=	$ _____

GRADUATED REPAYMENT PLAN

You can estimate your monthly payment under the Graduated Repayment Plan by multiplying your principal balance by the constant multiplier (from Chart C) that corresponds to your interest rate. Using this factor to calculate your monthly payment will ensure that your payment covers the monthly interest on your loans. However, your monthly payment must be at least one half of what you would pay under the Standard Plan. (See the calculation above.) Your monthly payment will be the larger of the two sums.

Principal Balance	multiplied by	Constant Multiplier from Chart C	equals	Estimated Beginning Monthly Payment (must be at least $50)
$_____	x	_____	=	$ _____

BEST COPY AVAILABLE

U.S. Department of Education
Washington, DC 20202